

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
SHERIFF**

**For The Period January 6, 2003
Through December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry Tincher, Nicholas County Judge/Executive
Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Nicholas County, Kentucky, for the period January 6, 2003 through December 31, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Nicholas County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
SHERIFF**

**For The Period January 6, 2003
Through December 31, 2003**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY SHERIFF

**For The Period January 6, 2003
Through December 31, 2003**

Carpenter, Mountjoy & Bressler, PSC has completed the Nicholas County Sheriff's audit for the period January 6, 2003 through December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Revenues decreased by \$5,060 from the prior period ending January 5, 2003 and expenditures increased by \$17,396.

Report Comments:

- Sheriff Should Not Make Payments For Personal Expenses From Official Funds
- Sheriff Should Eliminate The Deficit Of \$5,361 In His Fee Account
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Honorable Larry Tinchler, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Nicholas County, Kentucky, for the period January 6, 2003 through December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the period January 6, 2003 through December 31, 2003, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Larry Tinch, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Sheriff Should Not Make Payments For Personal Expenses From Official Funds
- Sheriff Should Eliminate The Deficit Of \$5,361 In His Fee Account
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Nicholas County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
December 15, 2004

NICHOLAS COUNTY
LEONARD T. GARRETT, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 6, 2003 Through December 31, 2003

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 2,640	
Cabinet For Human Resources	340	
Sheriff Security	<u>5,726</u>	\$ 8,706

Circuit Court Clerk:

Serving Papers		1,390
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Fiscal Court		15,549
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County Clerk - Delinquent Taxes		948
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Commission On Taxes Collected		58,402
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Other Fees on Tax Collection:

10% Sheriff Penalty	\$ 9,672	
\$5 Tax Service Fee	81	
Prior Year Settlements	<u>644</u>	10,397

Fees Collected For Services:

Auto Inspections	\$ 300	
Accident and Police Reports	106	
Serving Papers	9,320	
Carrying Concealed Deadly Weapon Permits	1,790	
Election Commission	<u>275</u>	11,791

Other:

Bond Reimbursements	\$ 213	
Miscellaneous	<u>4</u>	217

Interest Earned		170
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Borrowed Money:

State Advancement		<u>19,800</u>
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Total Revenues		<u>\$ 127,370</u>
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The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
 LEONARD T. GARRETT, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 6, 2003 Through December 31, 2003
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	30,000	
Other Salaries		13,164	\$ 43,164
Contracted Services-			
Advertising	\$	43	
Computer Maintenance and Repairs		97	
Copier		471	611
Materials and Supplies-			
Office Materials and Supplies	\$	1,686	
Uniforms		299	1,985
Auto Expense-			
Gasoline	\$	3,963	
Maintenance and Repairs		1,977	5,940
Other Charges-			
Paid:			
Utilities	\$	1,576	
Dues		325	
Postage		345	
Bond		213	
Carrying Concealed Deadly Weapon Permits		965	
Fiscal Court HB 577		1,380	
Bank Charges		26	
Radio		74	
Miscellaneous		457	
Unpaid:			
Fiscal Court HB 577		1,700	7,061

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
 LEONARD T. GARRETT, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 6, 2003 Through December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Debt Service:

State Advancement	\$ 19,800
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Total Expenditures	\$ 78,561
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Less: Disallowed Expenditures

Automobile Expense	475
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Total Allowable Expenditures	\$ 78,086
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Net Revenues	\$ 49,284
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Less: Paid Portion of Statutory Maximum	50,370
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Less: Unpaid Portion of Statutory Maximum	4,275
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Excess of Disbursements Over Revenues	\$ (5,361)
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NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Lease

The office of the County Sheriff was committed to a lease agreement with IOSCapital for a copier and fax machine. The agreement requires a quarterly payment of \$118 for 36 months to be completed on February 25, 2006. The total balance of the agreement was \$2,832 as of December 31, 2003.

Note 5. Deficit Balance

Based on available records, there is a \$5,361 deficit in the Sheriff's official fee account. This deficit is due to a revenue shortfall leaving the Sheriff unable to pay \$1700 due to the Nicholas County fiscal court and \$4275 of his salary. The Sheriff has assets of \$614 which offset the total unpaid liabilities of \$5,975 leaving a deficit of \$5,361. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

NICHOLAS COUNTY
LEONARD GARRETT, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period Ended December 31, 2003

Assets

Cash in Bank	\$	1,319	
Deposits in Transit		<u>89</u>	\$ 1,408
Receivables:			
Collected	\$	9,150	
Due from Sheriff		<u>475</u>	<u>9,625</u>
Total Assets			<u>\$ 11,033</u>

Liabilities

Paid Obligations:

Outstanding Checks		\$ 10,419
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Unpaid Obligations:

Nicholas County-Fiscal Court			
HB 577	\$	1,700	
Salary due Sheriff		<u>4275</u>	
Total Unpaid Obligations			<u>5,975</u>

Total Liabilities		<u>\$ 16,394</u>
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Total Fund Deficit as of December 31, 2003		<u><u>\$ (5,361)</u></u>
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COMMENTS AND RECOMMENDATIONS

NICHOLAS COUNTY
LEONARD T. GARRETT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 6, 2003 Through December 31, 2003

STATE LAWS AND REGULATIONS:

Sheriff Should Not Make Payments For Personal Expenses From Official Funds

During the audit we noted that the Sheriff made a personal automobile payment out of the fee account in the amount of \$475. The Sheriff had intentions of paying this money back as was evidenced by the related receivable recorded on the books. KRS 64.850 prohibits county officials from withdrawing public funds for any purpose other than that for which they were received. We recommend that the Sheriff reimburse the fee account for this expenditure and make no further payments from the fee account for personal expenses.

Sheriff's Response:

I realize now that instead of borrowing the money from the fee account, the check should have been written as salary. We were new and made a mistake, but we didn't try to hide it, as it was shown on our reports just like it was. The money was to come out of my last salary check which I still haven't received.

Sheriff Should Eliminate The Deficit Of \$5,361 In His Fee Account

The Sheriff has a deficit of \$5,361 in his official fee account. This deficit resulted from the inappropriate use of HB 577 fees, the additional fees assessed on subpoena and civil summons service that must be paid to fiscal court, and funds for the Sheriff's statutory maximum salary for operating expenses. This issue was exacerbated by a revenue shortfall with current year revenue decreasing by \$5,060 from the prior year. The Sheriff's 2003 fee account still owes \$1,700 in HB 577 fees to the county and \$4,275 in salary to the Sheriff. The Sheriff's 2003 fee account has assets of \$614 which offset the amounts due to result in a deficit of \$5,361. We recommend that the Sheriff deposit \$1,086 of personal funds into his official fee account in order to pay the \$1,700 to the county for HB 577 fees. We further recommend the Sheriff consult with the fiscal court and the county attorney to resolve the \$4,275 shortfall in his statutory maximum salary.

Sheriff's Response:

The money that the Fiscal Court was giving my office was lowered about \$600 a month. I wanted to pay my staff and operating expenses before I paid myself.

NICHOLAS COUNTY
LEONARD T. GARRETT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 6, 2003 Through December 31, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION & MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for lack of an adequate segregation of duties. However, we have judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

Following are some compensating controls that could offset a lack of adequate segregation of duties:

1. Strong and direct supervision by the official over receipts

- a. Cash recounted and deposited by the official
- a. Surprise cash counts by the official

Reconciliation of other monthly reports to source documents and receipts and disbursement ledgers

2. Strong and direct supervision by the official over disbursements

- All disbursement checks to be signed by two people, with one being the official
- Official examines payroll checks prepared by another employee and distributes checks to employees
- Other disbursement checks prepared by another employee are examined by the official for proper documentation
- Official mails disbursements

3. General Assets

- Employees are cross-trained
- Employees are required to take mandatory vacations
- Official prepared bank reconciliations

Sheriff's Response:

None

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Larry Tincher, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nicholas County Sheriff for the period January 6, 2003 through December 31, 2003, and have issued our report thereon dated December 15, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nicholas County Sheriff's financial statement for the period January 6, 2003 through December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- Sheriff Should Not Make Payments For Personal Expenses From Official Funds
- Sheriff Should Eliminate The Deficit Of \$5,361 In His Fee Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nicholas County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

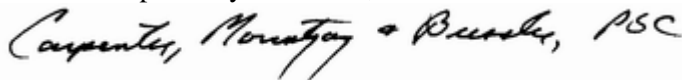
- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in dark ink and is positioned above the printed name of the firm.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
December 15, 2004

